

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-762

October 24, 2003

NORTHERN UTILITIES, INC.,
Petition for Approval of Affiliate
Agreements with Granite State
Gas Transmission, Inc.

ORDER

Welch, Chairman; Diamond and Reishus, Commissioners

I. SUMMARY

We find that Northern Utilities, Inc.'s (Northern) proposed capacity agreement with its affiliate, Granite State Gas Transmission, Inc. (Granite), is not adverse to the public interest and approve it. We also approve Northern's agreement with Granite for Granite to provide an independent depreciation study in October 2007.

II. BACKGROUND

Under its current pipeline configuration, Northern's gas supplies are transported over Granite's system pursuant to a contract for use of Granite's system capacity that complies with the tariffs approved for Granite by the Federal Energy Regulatory Commission (FERC). The Staffs of the Public Utilities Commissions in Maine and New Hampshire recently initiated negotiations with Granite, with the participation of the Maine Office of the Public Advocate (OPA), the New Hampshire Office of the Consumer Advocate (OCA), and Northern, to revise the terms of Northern's contractual arrangement with Granite. In particular, the parties discussed and agreed upon an appropriate rate, term and quantity for Northern's use of Granite's system. In addition, the parties agreed that Granite will have an independent consultant conduct a depreciation study before the end of the new contract term and provide it to Northern to allow it to evaluate the reasonableness of Granite's rates and aid in future negotiations. This portion of the agreement is to be documented in a separate proposed Letter Agreement.

On October 17, 2003, Northern filed for approval of a Precedent Agreement containing proposed contractual terms and the Letter Agreement resulting from this multi-jurisdictional negotiation. If approved by both state commissions, Northern and Granite will enter a new no notice, firm transportation (FT-NN) capacity contract on these terms, which will then be recognized under Granite's approved tariff.

III. ANALYSIS AND DECISION

Northern and Granite are affiliated interests pursuant to 35-A M.R.S.A. § 707. Maine law provides that a public utility may not make any contract or arrangement for the furnishing of services with any affiliated interest until the Commission finds that the contract or arrangement is not adverse to the public interest and gives the contract or arrangement its written approval. 35-A M.R.S.A. § 707(3).

Northern seeks written approval of, and authority to enter into with its affiliate, Granite, the proposed Precedent Agreement, the proposed new Contract FT-NN terms, and the Letter Agreement.

Northern currently takes service from Granite at its maximum FERC rate of \$1.66 per decatherm (Dth), for a Maximum Daily Transport Quantity (MDTQ) of 84,000 Dth/day, yielding an annual cost of \$1,679,933. We approved this arrangement through October 31, 2003, and thereafter continuing month to month. See *Northern Utilities, Inc., Request for Approval of Affiliate Agreement*, Docket No. 2001-634, Order (Dec. 21, 2001), and *Northern Utilities, Inc., Request for Approval of Affiliated Interest Transaction for Amendment to a Gas Transportation Contract with Granite State Gas Transmission, Inc.*, Docket No. 2002-526, Order (July 3, 2003) and Order Approving Settlement Agreement (Oct. 22, 2003). Based on an analysis conducted by an independent consultant, the Staffs of the Maine and New Hampshire Public Utilities Commissions concluded that a rate decrease appeared warranted for Granite. Granite's current rates were set during a rate case at the FERC in 1994.

After a series of discussions, the parties agreed that the benefits of a rate reduction could be achieved for Northern, and the expense of initiating a complaint under Section 5 of the Natural Gas Act avoided, by negotiating a favorable discount rate contract pursuant to Granite's FERC tariff. Accordingly, the parties agreed upon a discount rate of \$1.2639 Dth, a 5-year primary term, and an MDTQ of 100,000 Dth/day. The elements of the contract were negotiated together and are designed to provide benefits in addition to the discounted rate. For instance, the 5-year term will save parties the expense and burden of annual regulatory reviews, while the increased quantity will provide Northern with capacity to accommodate anticipated growth over the 5-year period.¹

The proposed new contract terms entitle Northern to an increased amount of capacity (by approximately 16%) for a lower annual cost of \$1,516,680, and an annual savings of \$163,253 over the current arrangement.

¹ Northern's current forecast projects a total requirement of 92,000 in year 5 of the contract. The additional capacity included in this proposed contract offers a cushion against the possibility that current sales growth forecasts may be low. In the intervening years, as it currently does, Northern may be able to release excess capacity and use the resulting revenues to offset some of its annual costs.

To facilitate the parties' discussions at the expiration of the 5-year contract term and to assist all parties in determining the need for depreciation adjustments in Granite's rates at that time, the parties have agreed that Granite will provide an independent review of Granite's depreciation rates to Northern on October 31, 2007, for consideration by the negotiating parties. The study should provide parties with a useful tool to evaluate the reasonableness of Granite's rates at that time and should help further contract negotiations.

Because the proposed Precedent Agreement, negotiated new Contract FT-NN terms and Letter Agreement provide benefits to Northern compared to its current arrangement, we find these affiliate agreements are not adverse to the public interest.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc., is authorized to enter into the Proposed Precedent Agreement, the proposed new Contract FT-NN, and the Letter Agreement with its affiliate, Granite State Gas Transmission, Inc.; and

2. That the terms of the proposed Precedent Agreement, the new Contract FT-NN, and the Letter Agreement, as presented in this proceeding, are approved.

Dated at Augusta, Maine, this 24th day of October, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.